

February 28, 1997

Commissioner Michal Moore  
Renewables Program Committee  
California Energy Commission  
1516 Ninth Street  
Sacramento, CA 95814

**Subject:       Comments on Committee Draft Policy Report  
                  on AB 1890 Renewables Funding  
                  Docket #96-REN-1890**

Dear Commissioner Moore:

United American Energy Corp. is pleased to submit its comments on the *Committee Draft Policy Report on AB 1890 Renewables Funding*. We have reviewed this document carefully and compliment the Committee on its work product. There are, however, a few substantial modifications that are needed to ensure accuracy and fairness in your final report. These proposed modifications are defined and justified in the remainder of this letter.

## **BACKGROUND**

United American Energy Corp. (UAE) owns and operates two renewable resource power plants in California:

1.     **Wadham Energy** - a 25 megawatt facility in Williams, California, that uses rice hulls as a fuel source.
2.     **Modesto Energy** - a 12.5 megawatt facility in Westley, California, that uses whole waste tires as a fuel source.

## **WADHAM ENERGY FACILITY**

This facility provides unique and valuable waste management and air emission reduction services to the agricultural sector of California's economy in the five-county area north of Sacramento.

Its comments on the Committee Draft Report are represented in the testimony submitted by the California Biomass Energy Alliance and the Renewable Industry Coalition. We will not repeat them here, other than to note that the proposed allocation to Tier I facilities is simply inadequate to ensure the stable ongoing operation of biomass facilities for the duration of the transition period. Instead of providing the support explicitly called for in AB 1890 that would retain the benefits provided by facilities such as Wadham Energy, the proposed level of production incentive prolongs the uncertainty and erodes the viability of our operations as we seek to implement cost-shifting mechanisms that ensure market priced power by 2002.

If our facility is forced to close due to inadequate interim support, the impacts will be measurable and severe. We refer you to the comments submitted by the California Rice Industry Association for further detail.

In sum, we strongly encourage the Committee to adopt the recommendations of the California Biomass Energy Alliance and the Renewable Industry Coalition to shift 5% of the renewables fund from the Emerging Technology category to Tier I of the Existing Renewables category. If the test of this proposed reallocation is whether or not the citizens of California gain or lose as a result of this modification, it is immediately evident that the public obtains cheaper electricity (now and in the future) and multiple non-electric benefits from support of Tier I than they will ever gain from expenditures on photovoltaic technologies.

## **MODESTO ENERGY FACILITY**

United American Energy Corp. has operated the Modesto Energy facility for approximately three years since acquiring it from the bankruptcy of its original developer. The facility currently holds a S0-4 contract with PG&E. The fixed price component of this contract expires in the near future.

The facility generates approximately 12.5 megawatts of electricity. It conserves traditional fuels by consuming 6 million whole waste tires per year (approximately 20% of California's annual output) and is an essential component of the state's waste management infrastructure. Additionally, it provides recycled products and a range of economic and environmental benefits to the public including the avoidance of air, soil, and groundwater pollution inherent in uncontrolled tire fires, preservation of landfill space, and an alternative to the high cost of remediation of abandoned inventories of millions of waste tires at taxpayer expense.

The Committee Report, as drafted, raises the need to address the eligibility and placement of the Modesto Energy facility within the context of this document. The following information and recommendations provide the basis for its inclusion.

## **1. Eligibility for Renewables Funding**

AB 1890 makes it clear that the Modesto Energy facility is eligible for renewables funding.

Section 381 (b) (3) approves allocation of funds to those in-state facilities that generate electricity from *“other than a conventional power source within the meaning of Section 2805, provided that a power source utilizing more than 25 percent fossil fuel may not be included.”*

Further, Section 383 (a) (2) defines a primary purpose of the renewable funds as *“supporting the operations of existing renewable resource generation facilities which provide fire suppression benefits, reduce materials going into landfills, and mitigate the amount of open-field burning of agricultural waste.”*

The Modesto Energy facility meets both of these criteria for funding eligibility.

## **2. Committee Draft Fails to Recognize Modesto Energy**

As drafted, the Committee Report does not recognize the existence of or the unique attributes of the Modesto Energy facility, nor does it assign this facility’s operations to an appropriate tier within the Existing Technology category.

## **3. Modesto Energy Not a MSW Facility**

California currently has only three MSW (municipal solid waste) facilities. Each combusts unsegregated municipal waste from household garbage collection and other sources to create electricity. Two of the facilities are in Southern California (Long Beach and City of Commerce), and it is our understanding that each has a negotiated long term contract with Southern California Edison that guarantees a floor price of nine cents per KWH produced. The third MSW facility is located at Crow’s Landing in Stanislaus County.

## **4. Language of Draft Supports Waste Tire Inclusion**

The draft report mentions used (waste) tires only once. We refer you to page ES-11, which states that *“...municipal waste, biomass, or used tires that originate in California, but are transported outside of California for combustion and conversion into electricity, will not be eligible for support.”*

By definition, then, those itemized materials - including used tires - that are combusted in California for conversion into electricity are eligible for support.

## **5. Definitions Need Correction**

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On page 42 of the draft report, a listing of renewable resource technologies eligible for funding is presented. This listing fails to recognize the eligibility of a waste tire facility for renewable resource funds. We believe that this is simply an oversight. Consequently, having established the eligibility of facilities that utilize waste tires as fuel and having clarified that a waste tire facility is not a municipal solid waste facility, **we recommend that the oversight be corrected by adding an Item #8** to the list that states "*the direct combustion of whole waste tires for energy*". This addition is necessary to provide clarity and remove uncertainty with regard to this matter.

## **6. Modesto Energy Is A Tier I Facility**

The draft report assigns existing renewable resource technologies to various tiers based on demonstrated need and taking into account their approximate average costs and other revenue streams.

Modesto Energy, which is the only facility in California that is solely dependent on waste tires as its fuel source, has a cost basis per KWH at least equal to that of the biomass facilities for the electricity it produces. The facility receives no tax credits.

Therefore, its profile parallels that of the biomass and solar thermal technologies which have been assigned to Tier I. **Placement of Modesto Energy in any tier other than Tier I would misrepresent reality and would make it impossible for the facility to continue to operate during the transition period.**

We have discussed the placement of Modesto Energy in Tier I with representatives of the Biomass Energy Alliance and the Renewable Industry Coalition. They concur that this is the appropriate placement, based on need, and would not oppose such a modification by the Committee.

## **SUMMARY**

This letter has presented a clear rationale for the recognition and treatment of the Modesto Energy facility as you revise the Committee Draft Report. We ask that you act upon our recommendations to provide the clarity that is deserved and needed. Our representatives are available to meet with you on short notice for any further discussion that may be necessary.

Respectfully,

Edward W. Tomeo  
Vice President

cc: Commissioner Jananne Sharpless